

# Public Private Partnerships In Transit

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## TRANSIT PPPs

- Toll road concession model is not promising
  - Assumes revenues sufficient to cover costs plus profit
  - Virtually no transit system operates without subsidy
  - Length of lease may be an obstacle

## TRANSIT PPPs

However,

- outsourcing and subsidy minimization are tried and tested transit models
  - Allow for external funding of capital expenses
  - Allow for clear allocation of program and financial risks
  - Can establish operating and service standards
  - Can establish maintenance standards (and funding for maintenance is “locked in”)
  - Can set financial incentives and disincentives

## **PUBLIC PRIVATE PARTNERSHIPS (P3)**

- In the UK, since 1992
- Roads, light rail, hospitals, prisons, schools, courthouses, water treatment, Government accommodation
- Design, build, finance and operate (DBFO)
- Viewed as a more efficient method of procurement
- 620 signed projects worth \$103 billion (capital value)

## UK SYSTEM - CENTRALISED

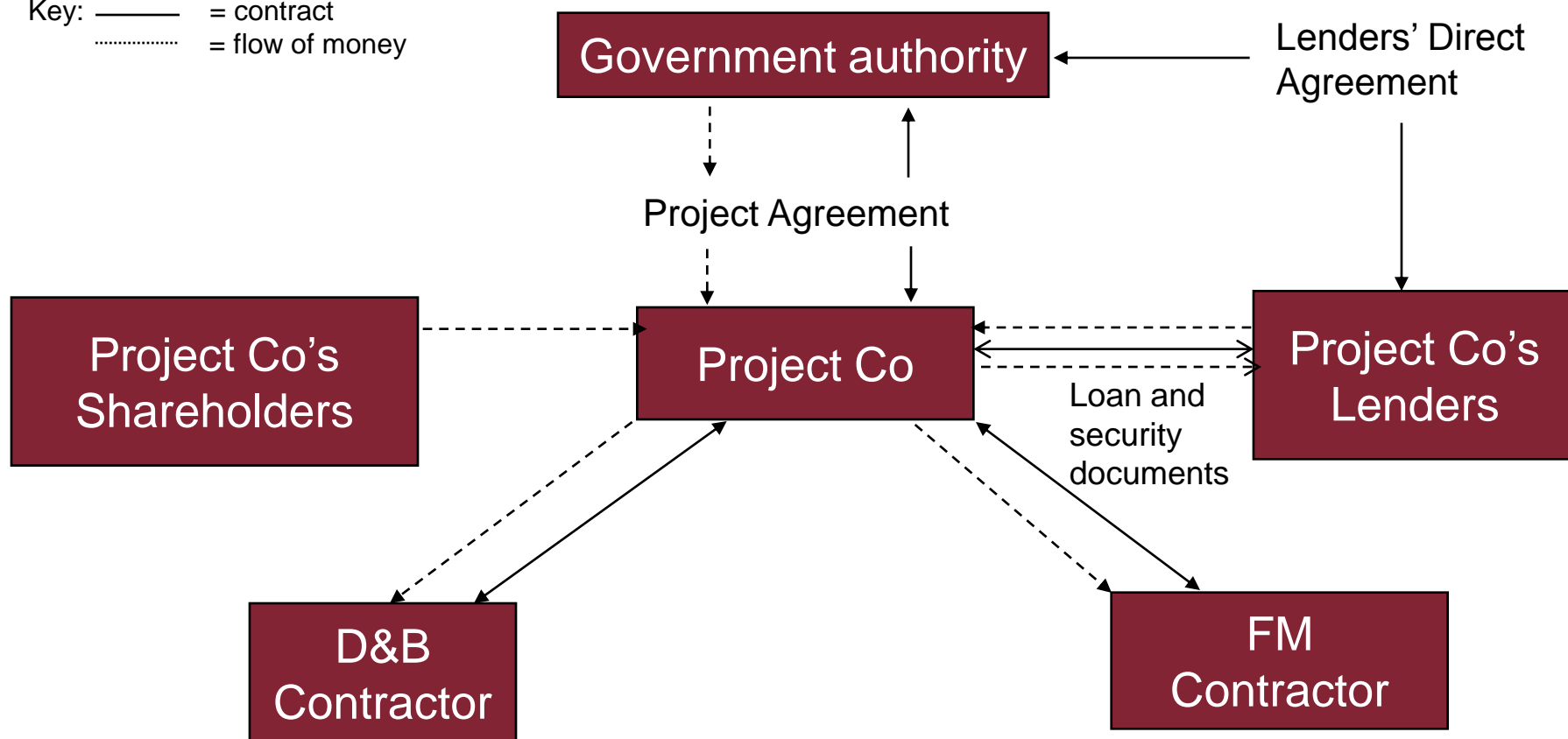
- Two tiers of Government
  - Central Government
  - Local authorities
- Powers of the Crown (basically, unlimited)
- Powers of local authorities (need a statutory power)
- Funding leverage exerted by central Government
- The Treasury and Partnerships UK can “control” the PPP market
- Unified procurement laws based on EU Directives

## UK P3 TRANSIT PROJECTS

- Croydon Tramlink
- Docklands Light Railway Extension
- LU Northern Line Trains
- LT Integrated Ticketing System
- Manchester Metrolink
- Nottingham Express
- LUL Infrastructure Projects (x 3)

# OUTLINE OF A TYPICAL PROJECT STRUCTURE

Key: — = contract  
..... = flow of money



## PAYMENT MECHANISMS

- Authority pays a monthly unitary charge
- Deductions for
  - Unavailability
  - Poor performance
- Measured against
  - output specification
  - key performance indicators (KPIs)
- Authority may keep fare income or operator may collect it (the latter is less attractive to funders)
- Project Co recovers capex, opex, financing costs and profit through the unitary charge



## **GUIDANCE FOR P3 PROJECTS**

- Partnerships UK and 4ps
- PFUs within spending Departments
- Standardisation of PFI Contracts, version 4 (“SoPC4”)

- Sector specific project agreements for (inter alia)
  - hospitals
  - schools
  - social care projects
  - waste management projects
- Sector specific procurement packs also include
  - output specifications
  - payment mechanisms
  - RFP documents

- Funding for projects (the authority's ability to commit to pay the unitary charge over 25 years) is rationed through the Government's spending approvals process
- Other Governments are following the Partnerships UK model – eg Canada, Ireland, the Netherlands . . . and California

## **TRANSIT PPPs : CONCLUSION**

- The private sector has been a long-time transit provider
- The benefits are there
- The challenges can be met
- The risks can be allocated fairly
- Not the solution for all systems
- But another useful tool for growing and improving public transit service

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